

PAYE Guidelines on Taxation of Employment Income



PAYE is a tax charged on employment income and the employer is required by law to compute, deduct, account and remit the tax to Commissioner of Domestic Taxes on a monthly basis. The tax deducted must be paid by 9th of the month following the deduction.

NOTE: The guidelines do not apply to remunerations paid to consultants for services rendered to an employer, otherwise subjected to Withholding Tax under section 35 of the Act.

Key Highlights

Income from employment shall constitute income as outlined in section 5(2)(a) of the ITA

The following allowances shall be deemed to be employment income and therefore chargeable to tax under PAYE;

- Housing allowance
- Entertainment allowance
- Sitting allowance
- Special Duty allowance
- Medical allowance
- Transport allowance
- Mileage allowance
- School fees paid to employee's dependant by employer

Income from employment paid in the form of bonuses, overtime and retirement benefits shall be exempt provided that the employment income before the bonuses and overtime allowance does not exceed **KES 11,180** p.m or **KES 134,164** p.a

Taxable Benefits

The following benefits shall be taxed on all employees as indicated

- Motor Vehicle – higher of commissioner's prescribed rate or cost of hiring /leasing, currently at 2% p.m.
- Fringe Benefit – paid as the difference between market interest rate and actual interest paid.
- Insurance cover where there is no group insurance policy scheme.
- Domestic Servants Benefit
- Security Services Benefit
- Housing – shall be taxed at higher of;
 - 15% of total employment income.
 - Fair market rental value of the premises.
 - Rent paid by the employer.
- Telephone – 30%
- Furniture – higher of amount paid per month/ annum if hired or 1% p.m. (12% p.a.) of actual cost.
- Electricity – KES 1,500 p.m. or KES 18,000 p.a.
- Water – KES 500 p.m or KES 6,000 p.a.

Tax Free Benefits

- First KES 2,000 shall be allowable. Any amount exceeding the KES 2,000 shall be taxable unless there is supporting evidence.
- Non-cash benefits below KES 36,000 p.a. or KES 3,000 p.m.
- Meals provided to low income earners to a maximum of KES 48,000 p.a or KES 4,000 p.m per employee

Personal Allowances

- Personal relief increased from KES 13,944 p.a. (KES 1,162 p.m.) to KES 15,360 p.a. (KES 1,280 p.m.)
- Mortgage Interest increased from KES 150,000 p.a. (KES 12,500 p.m.) to KES 300,000 p.a. (KES 25,000) p.m.)

Applicable tax bands and rates for personal taxation;

	Annual	Monthly	Rates
On the first	134,164	11,180	10%
On the next	126,403	10,534	15%
On the next	126,403	10,534	20%
On the next	126,403	10,534	25%
Above	513,373	42,782	30%

Retirement Benefits

Upon attaining retirement age, retirement benefits could be paid in either lump sum or monthly pensions.

Monthly Pensions/ Lumpsum

Lumpsum – the first KES 60,000 p.a. of pensionable services to a maximum of ten years is exempt from tax.

Monthly Pensions - the first KES 25,000 p.a shall be exempt from tax.

The balance shall be taxed as follows;

	Lumpsum p.a	Monthly	Rates
On the first	400,000	13,333	10%
On the next	400,000	13,333	15%
On the next	400,000	13,333	20%
On the next	400,000	13,333	25%
Balance			30%

- Any lumpsum withdrawals before attainment of 50 years or due to ill health or has been a member of the scheme for not less than 10 years shall be taxed as highlighted.
- Any lumpsum received in any other circumstance shall be taxed as follows

	Lumpsum p.a	Rates
On the first	121,968	10%
On the next	114,912	15%
On the next	114,912	20%
On the next	114,912	25%
Above	466,704	30%

Conclusion

The guidelines are meant to provide clarity on the appropriate rates to use in the filling of PAYE subject to changes to the Income Tax Act by The Finance Act 2016.



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